SCS Agency
Franchise Tax Board

ANALYSIS OF AMENDED BILL

Author:	O'Connell	Analyst:	Jeani Brent	Bill Number:	SB 1923
Related Bills:	See Legislative History	Telephone:	845-3410	Amended Date:	04/21/98
		Attorney:	Doug Bramhall	Sponsor:	

SUBJECT: LAMBRA Tax Incentives/California State University Channel Islands Site Authority Act

SUMMARY

Under the Government Code, this bill would create the California State University, Channel Islands Site Authority Act.

This bill would provide that all tax incentives available to existing local agency military base recovery areas (LAMBRAs) under the Revenue and Taxation Code would be available for businesses located in the California State University, Channel Islands site. In addition, the bill would provide that, for purposes of the Revenue and Taxation Code, the California State University. Channel Islands site would be deemed designated as a LAMBRA.

This bill also contains other provisions regarding the Channel Islands site. This analysis will not address these provisions as they do not impact the Franchise Tax Board (FTB).

SUMMARY OF AMENDMENT

The April 21, 1998, amendment added the provisions discussed in this analysis.

EFFECTIVE DATE

This bill would become effective January 1, 1999. However, the bill specifies it would be operative only if the Trustees of the California State University accept the Camarillo State Hospital site as a California State University (CSU), as described in existing Education Code. In September 1997, the CSU Trustees agreed to accept the Camarillo State Hospital property, thus the bill would be operative January 1, 1999. The tax incentives would be available for taxable or income years beginning on or after January 1, 1999, and before January 1, 2003.

LEGISLATIVE HISTORY

AB 3 (1997/98); AB 1984 (1995/96); AB 3601 (Stats. 1994, Ch. 146); AB 693 (Stats. 1993, Ch. 1216).

DEPARTMENTS THAT MAY BE AFFECTED:

____ STATE MANDATE ____ GOVERNOR'S APPOINTMENT

Board Position:	Agency Secretary Position:	GOVERNOR'S OFFICE USE
____ S ____ O ____ SA ____ OUA ____ N ____ NP ____ NA ____ NAR ____X____ PENDING	____ S ____ O ____ SA ____ OUA ____ N ____ NP ____ NA ____ NAR DEFER TO ____________	Position Approved ____ Position Disapproved ____ Position Noted ____
Department Director Gerald H. Goldberg 5/5/98	Agency Secretary Date	By: Date:

PROGRAM HISTORY/BACKGROUND

California has five types of economic development areas that have similar tax incentives:

- Enterprise Zones,
- Los Angeles Revitalization Zone (LARZ),
- Local Agency Military Base Recovery Areas (LAMBRA),
- Targeted Tax Area (TTA), and
- Manufacturing Enhancement Areas (MEA).

The following table shows the incentives available to each of the economic development areas.

Types of Incentives	EZ	LARZ*	LAMBRA	TTA	MEA
Sales or Use Tax Credit	X	X	X	X	
Hiring Credit	X	X	X	X	X
Construction Hiring Credit		X			
Employee Wage Credit	X				
Business Expense Deduction	X	X	X	X	
Net Interest Deduction	X	X			
Net Operating Loss	X	X	X	X	

* NOTE: the LARZ expires December 1, 1998.

SPECIFIC FINDINGS

Under the Government Code, the LAMBRA Act, which became effective on October 11, 1993, established the mechanisms for designating "LAMBRAs" to stimulate growth and development in areas that experience military base closures. The governing body of an eligible area may apply to the Trade and Commerce Agency (TCA) for designation as a LAMBRA. Using specified criteria, TCA is responsible for designating five LAMBRAs, one from each of the five regions (as specified) of the state. The LAMBRA designation is binding for eight years.

Currently, TCA has designated two of the five LAMBRAs authorized under existing law and the other three areas have received conditional designation. Each LAMBRA designation is binding for eight years. The TTA and MEAs were authorized in 1997 and are binding for 15 years beginning January 1, 1998.

Under the Revenue and Taxation Code, existing state law provides special tax incentives to taxpayers who conduct business activities within a LAMBRA and, within the first two taxable years, have a net increase in jobs (defined as 2,000 paid hours per employee per year) of one or more employees in the LAMBRA. These tax incentives (sales or use tax credits, hiring credits, business expense deductions, and net operating losses) are available for taxable or income years beginning on or after January 1, 1995, and before January 1, 2003. See attachment A for a detailed discussion of each tax incentive.

SB 1923 would establish the California State University, Channel Islands site, for conversion of the former Camarillo State Hospital and related areas into a California State University campus and other compatible uses. The tax benefits available to businesses within existing LAMBRAs would be available to all businesses within the Channel Islands site. The bill specifies that these tax benefits would include the sales or use tax credit, the hiring credit, the net operating loss carryforward, and the business expense deduction. This bill specifies that, for purposes of the applying the tax incentives, the Channel Islands site would be deemed designated as a LAMBRA.

Policy Consideration

This bill does not specify the duration of the LAMBRA designation that would be provided under this bill.

Implementation Considerations

Implementing this bill would require some changes to existing tax forms and instructions and information systems, which could be accomplished during the normal annual update.

FISCAL IMPACT

Departmental Costs

This bill would not significantly impact the department's costs.

Tax Revenue Estimate

The revenue loss from this bill is estimated as follows:

Estimated Revenue Impact of SB 1923 As Amended April 21, 1998 ($in Millions)			
1999-0	2000-1	2001-2	2002-3
(minor)*	($1)	($2)	($3)

* less than $500,000

Revenue losses in subsequent years could increase as more businesses invest in this proposed area and the profitability of such operations improve. This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Tax Revenue Discussion

Revenue losses under the Personal Income Tax Law and the Bank and Corporation Tax Law would depend primarily on the number of businesses that would purchase qualified property subject to the sales tax, the amount of wages paid to qualifying employees, and the state tax liabilities of employers claiming tax benefits.

Because the effectiveness of a new area is unknown, the average revenue loss of $3 million per area by the third full year used for additional LAMBRAs is used here (see below for basis). Losses for the initial years would be less.

Sales Or Use Tax Credit

The average sales and use tax rate for California is 7.92%. For every $100 million in qualified property by the third year of which one-fourth of the calculated credit could be used to offset apportioned tax liabilities for the first year, the revenue loss would be $2 million.

Hiring Credit

Assuming an average wage of $8.50 per hour, for every 1,000 employees who work an average of 1,000 hours by the third year and qualify employers for the credit, the revenue loss would be $1 million (assuming 25% of calculated credits could be used to offset apportioned tax liabilities).

Expense Deduction

The loss would probably be minor. This is due to the limitation for the amount of expensing. For larger equipment many taxpayers would continue to use depreciation rather than the expensing option under this provision.

Net Operating Losses

The revenue loss for the option of the 100% net operating loss deduction applied against income attributed to the LAMBRA (rather than applying other net operating loss provisions) would probably be minor in the first few years. This estimate is based on current law experience for enterprise zones and program areas and law changes that now permit small and new businesses to use 100% carryover.

BOARD POSITION

Pending.

Senate Bill 1923 (O'Connell)
Amended April 21, 1998

ATTACHMENT A

LAMBRA Sales or Use Tax Credit

The sales or use tax credit is allowed for an amount equal to the sales or use taxes paid on the purchase of qualified machinery purchased for exclusive use in a LAMBRA. The amount of the credit is limited to the tax attributable to LAMBRA income. Qualified property is defined as high technology equipment (e.g., computers), aircraft maintenance equipment, aircraft components, or certain depreciable property. In addition, qualified property must be purchased and placed in service before the LAMBRA designation expires. The maximum value of property that may be eligible for the sales or use tax credit is $1 million for individuals and $20 million for corporations.

LAMBRA Hiring Credit

A business located in a LAMBRA may reduce tax by a percentage of wages paid to qualified employees. A qualified employee must be hired after the area is designated a LAMBRA and meet certain other criteria. At least 90% of the qualified employee's work must be directly related to a trade or business located in the LAMBRA and at least 50% must be performed inside the LAMBRA. The business may claim up to 50% of the wages paid to a qualified employee as a credit against tax imposed on LAMBRA income. The credit is based on the lesser of the actual hourly wage paid or 150% of the current minimum hourly wage. The amount of the credit must be reduced by any other federal or state jobs tax credits and the taxpayer's deduction for ordinary and necessary trade or business expenses must be reduced by the amount of the hiring credit.

LAMBRA Business Expense Deduction

A business located in a LAMBRA may elect to deduct as a business expense a specified amount of the cost of qualified property purchased for exclusive use in the LAMBRA. The deduction is allowed in the taxable or income year in which the taxpayer places the qualified property in service. The basis of the property must be reduced by the amount of the deduction. The maximum deduction for all qualified property is the lesser of the cost or the following:

If the property was placed in service:

Months after designation	Maximum deduction
0 to 24	$40,000
25 to 48	30,000
48 and over	20,000

LAMBRA Net Operating Loss Deduction

A business located in a LAMBRA may elect to carry over 100% of the LAMBRA net operating losses (NOLs) to deduct from LAMBRA income in future years. The election must be made on the original return for the year of the loss. The NOL carryover is determined by computing the business loss that results from business activity in the LAMBRA.